



Carlton, Oregon

**ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2017**

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CITY OF CARLTON

**OFFICERS AND MEMBERS OF THE GOVERNING BODY
For the Year Ended June 30, 2017**

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CITY COUNCIL

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CITY MANAGER

Chad Olsen
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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Carlton

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carlton as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1.C.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

INDEPENDENT AUDITOR'S REPORT (Continued)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2017, and the respective changes in the modified cash basis financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General and Street Funds, for the year then ended in accordance with the modified cash basis of accounting described in Note 1.C.

Basis of Accounting

We draw attention to Note 1.C. of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining financial statements and individual fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements and individual fund schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements and individual fund schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Reports on Other Legal and Regulatory Requirements

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

INDEPENDENT AUDITOR'S REPORT (Continued)

Other Reporting Required by Oregon State Regulations

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated October 26, 2017 on our consideration of the City's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of the report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

Boldt Carlisle + Smith
Certified Public Accountants
Salem, OR
October 26, 2017
By:

A handwritten signature in black ink, appearing to read 'B. Bingenheimer', written in a cursive style.

Bradley G. Bingenheimer, Member

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BASIC FINANCIAL STATEMENTS

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CITY OF CARLTON

**STATEMENT OF NET POSITION
MODIFIED CASH BASIS
June 30, 2017**

	Governmental Activities	Business-type Activities	Totals
<u>ASSETS</u>			
Cash and investments	<u>\$ 2,220,256</u>	<u>\$ 733,106</u>	<u>\$ 2,953,362</u>
<u>LIABILITIES</u>			
Customer deposits payable	<u>-</u>	<u>46,347</u>	<u>46,347</u>
<u>NET POSITION</u>			
Restricted for:			
Capital projects	-	348,774	348,774
Highways and streets	-	-	-
Economic development	-	-	-
Debt service	-	158,645	158,645
Unrestricted	<u>447,130</u>	<u>179,340</u>	<u>626,470</u>
TOTAL NET POSITION	<u>\$ 447,130</u>	<u>\$ 686,759</u>	<u>\$ 1,133,889</u>

See accompanying notes

CITY OF CARLTON

**STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
For the Year Ended June 30, 2017**

	Program Receipts		
Disbursements	Charges for Services	Operating Grants and Contributions	
<u>Functions/Programs</u>			
Governmental activities:			
General government	\$ 458,112	\$ 80,206	\$ 1,906
Public safety	421,415	-	3,500
Highways and streets	300,840	-	-
Culture and recreation	530,953	38,648	-
Debt service	86,688	-	-
	1,798,008	118,854	5,406
TOTAL GOVERNMENTAL ACTIVITIES			
Business-type activities:			
Water	1,397,465	947,767	-
Sewer	621,737	583,571	-
	2,019,202	1,531,338	-
TOTAL BUSINESS-TYPE ACTIVITIES			
Totals	\$ 3,817,210	\$ 1,650,192	\$ 5,406

General receipts

- Taxes, levied for general purposes
- Miscellaneous taxes
- Fines and forfeitures
- Licenses, permits and fees
- Intergovernmental
- Interest
- Miscellaneous

Transfers

TOTAL GENERAL RECEIPTS AND TRANSFERS

CHANGE IN NET POSITION

NET POSITION - BEGINNING, restated

NET POSITION - ENDING

See accompanying notes

Net (Disbursements) Receipts
and Changes in Net Position

Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
\$ -	\$ (376,000)		\$ (376,000)
-	(417,915)		(417,915)
208,675	(92,165)		(92,165)
41,666	(450,639)		(450,639)
-	(86,688)		(86,688)
<u>250,341</u>	<u>(1,423,407)</u>		<u>(1,423,407)</u>
639,439		\$ 189,741	189,741
<u>117,464</u>		<u>79,298</u>	<u>79,298</u>
<u>756,903</u>		<u>269,039</u>	<u>269,039</u>
<u>\$ 1,007,244</u>	<u>(1,423,407)</u>	<u>269,039</u>	<u>(1,154,368)</u>
	857,882	-	857,882
	37,095	-	37,095
	17,642	-	17,642
	142,932	-	142,932
	221,244	-	221,244
	17,774	13,158	30,932
	18,893	4,093	22,986
	<u>336,271</u>	<u>(336,271)</u>	<u>-</u>
	<u>1,649,733</u>	<u>(319,020)</u>	<u>1,330,713</u>
	226,326	(49,981)	176,345
	<u>1,993,930</u>	<u>736,740</u>	<u>2,730,670</u>
	<u>\$ 2,220,256</u>	<u>\$ 686,759</u>	<u>\$ 2,907,015</u>

CITY OF CARLTON

**BALANCE SHEET
GOVERNMENTAL FUNDS
MODIFIED CASH BASIS
June 30, 2017**

	<u>General</u>	<u>Street</u>
<u>ASSETS</u>		
Cash and investments	\$ 447,130	\$ 111,862
<u>FUND BALANCE</u>		
Restricted for:		
Capital projects	\$ -	\$ -
Street maintenance	-	111,862
Economic development	-	-
Committed for:		
Capital projects	-	-
Tourism	-	-
Unassigned	<u>447,130</u>	<u>-</u>
TOTAL FUND BALANCE	<u>\$ 447,130</u>	<u>\$ 111,862</u>

See accompanying notes

System Development Charges	GO-2015 Pool Project Bond	Total Nonmajor Funds	Total Governmental Funds
<u>\$ 1,491,418</u>	<u>\$ 4,280</u>	<u>\$ 165,566</u>	<u>\$ 2,220,256</u>
\$ 1,491,418	\$ 4,280	\$ -	\$ 1,495,698
-	-	-	111,862
-	-	90,924	90,924
-	-	56,749	56,749
-	-	17,893	17,893
<u>-</u>	<u>-</u>	<u>-</u>	<u>447,130</u>
<u>\$ 1,491,418</u>	<u>\$ 4,280</u>	<u>\$ 165,566</u>	<u>\$ 2,220,256</u>

CITY OF CARLTON

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
MODIFIED CASH BASIS
For the Year Ended June 30, 2017**

	General	Street
RECEIPTS		
Property taxes	\$ 700,047	\$ -
Miscellaneous taxes	17,458	-
Fines and forfeitures	17,642	-
Licenses, permits and fees	142,932	-
Charges for services	118,854	-
Intergovernmental	53,925	172,725
System development charges	-	-
Interest	6,087	4,085
Miscellaneous	18,221	133,603
TOTAL RECEIPTS	1,075,166	310,413
DISBURSEMENTS		
Current		
General government	308,333	-
Public safety	389,206	-
Highways and streets	-	273,614
Culture and recreation	158,019	-
Capital outlay	61,184	1,121
Debt service	-	-
TOTAL DISBURSEMENTS	916,742	274,735
Excess (deficiency) of receipts over disbursements	158,424	35,678
OTHER FINANCING SOURCES (USES)		
Transfers in	29,295	-
Transfers out	(81,063)	(28,515)
TOTAL OTHER FINANCING SOURCES (USES)	(51,768)	(28,515)
Net change in fund balance	106,656	7,163
Fund balance at beginning of year, restated	340,474	104,699
Fund balance at end of year	\$ 447,130	\$ 111,862

See accompanying notes

System Development Charges	GO-2015 Pool Project Bond	Total Nonmajor Funds	Total Governmental Funds
\$ -	\$ 53,484	\$ 104,351	\$ 857,882
-	-	19,637	37,095
-	-	-	17,642
-	-	-	142,932
-	-	-	118,854
-	-	-	226,650
347,932	-	-	347,932
4,570	965	2,067	17,774
-	672	-	152,496
<u>352,502</u>	<u>55,121</u>	<u>126,055</u>	<u>1,919,257</u>
954	-	22,838	332,125
-	-	-	389,206
-	-	-	273,614
-	-	-	158,019
7,000	283,799	50,954	404,058
-	55,626	-	55,626
<u>7,954</u>	<u>339,425</u>	<u>73,792</u>	<u>1,612,648</u>
<u>344,548</u>	<u>(284,304)</u>	<u>52,263</u>	<u>306,609</u>
-	-	-	29,295
-	-	-	(109,578)
-	-	-	(80,283)
344,548	(284,304)	52,263	226,326
<u>1,146,870</u>	<u>288,584</u>	<u>113,303</u>	<u>1,993,930</u>
<u>\$ 1,491,418</u>	<u>\$ 4,280</u>	<u>\$ 165,566</u>	<u>\$ 2,220,256</u>

CITY OF CARLTON

**GENERAL FUND
STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
MODIFIED CASH BASIS**

For the Year Ended June 30, 2017

	Budget			
	Original	Final	Actual	Variance
RECEIPTS				
Property taxes	\$ 630,000	\$ 630,000	\$ 700,047	\$ 70,047
Miscellaneous taxes	8,100	8,100	17,458	9,358
Fines and forfeitures	15,000	15,000	17,642	2,642
Licenses, permits and fees	129,900	129,900	142,932	13,032
Charges for services	63,180	93,180	118,854	25,674
Intergovernmental	38,000	38,000	53,925	15,925
Interest	4,000	4,000	6,087	2,087
Miscellaneous	1,000	1,000	18,221	17,221
	<u>889,180</u>	<u>919,180</u>	<u>1,075,166</u>	<u>155,986</u>
TOTAL RECEIPTS				
DISBURSEMENTS				
Administration	110,579	112,679	92,877	19,802
City recorder/finance	141,530	143,630	123,965	19,665
Planning and land use	65,342	95,842	66,462	29,380
Police	456,628	456,628	421,415	35,213
Municipal court	37,435	37,435	33,401	4,034
Parks and recreation	105,336	105,336	96,489	8,847
Swimming pool	73,390	90,690	82,133	8,557
Contingency	124,061	77,061	-	77,061
	<u>1,114,301</u>	<u>1,119,301</u>	<u>916,742</u>	<u>202,559</u>
TOTAL DISBURSEMENTS				
Excess (deficiency) of receipts over disbursements	<u>(225,121)</u>	<u>(200,121)</u>	<u>158,424</u>	<u>358,545</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	29,295	29,295	29,295	-
Transfers out	(81,063)	(106,063)	(81,063)	25,000
	<u>(51,768)</u>	<u>(76,768)</u>	<u>(51,768)</u>	<u>25,000</u>
TOTAL OTHER FINANCING SOURCES (USES)				
Net change in fund balance	(276,889)	(276,889)	106,656	383,545
Fund balance at beginning of year, restated	276,889	276,889	340,474	63,585
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 447,130</u>	<u>\$ 447,130</u>

See accompanying notes

CITY OF CARLTON

STREET FUND

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
MODIFIED CASH BASIS**

For the Year Ended June 30, 2017

	Budget			
	Original	Final	Actual	Variance
RECEIPTS				
Intergovernmental	\$ 152,928	\$ 152,928	\$ 172,725	\$ 19,797
Interest	3,500	3,500	4,085	585
Miscellaneous	100	100	133,603	133,503
TOTAL RECEIPTS	<u>156,528</u>	<u>156,528</u>	<u>310,413</u>	<u>153,885</u>
DISBURSEMENTS				
Personal services	78,199	80,199	75,801	4,398
Materials and services	76,460	76,460	197,476	(121,016)
Capital outlay	3,500	1,500	1,458	42
Contingency	94,456	94,456	-	94,456
TOTAL DISBURSEMENTS	<u>252,615</u>	<u>252,615</u>	<u>274,735</u>	<u>(22,120)</u>
Excess (deficiency) of receipts over disbursements	<u>(96,087)</u>	<u>(96,087)</u>	<u>35,678</u>	<u>131,765</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(28,515)</u>	<u>(28,515)</u>	<u>(28,515)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(28,515)</u>	<u>(28,515)</u>	<u>(28,515)</u>	<u>-</u>
Net change in fund balance	(124,602)	(124,602)	7,163	131,765
Fund balance at beginning of year, restated	<u>124,602</u>	<u>124,602</u>	<u>104,699</u>	<u>(19,903)</u>
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 111,862</u>	<u>\$ 111,862</u>

See accompanying notes

CITY OF CARLTON

**STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 MODIFIED CASH BASIS
 June 30, 2017**

	<u>Business-type Activities</u>	
	<u>Water</u>	<u>Sewer</u>
<u>ASSETS</u>		
Current assets		
Cash and investments	\$ 193,788	\$ 31,899
<u>LIABILITIES</u>		
Current liabilities		
Customer deposits payable	46,347	-
<u>NET POSITION</u>		
Restricted for:		
Capital outlay	-	-
Debt service	-	-
Unrestricted	147,441	31,899
TOTAL NET POSITION	\$ 147,441	\$ 31,899

See accompanying notes

<u>Capital Improvements</u>	<u>Debt Service</u>	<u>Total Enterprise Funds</u>
\$ 348,774	\$ 158,645	\$ 733,106
-	-	46,347
348,774	-	348,774
-	158,645	158,645
-	-	179,340
<u>\$ 348,774</u>	<u>\$ 158,645</u>	<u>\$ 686,759</u>

CITY OF CARLTON

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
MODIFIED CASH BASIS**

For the Year Ended June 30, 2017

	Business-type Activities	
	Water	Sewer
OPERATING RECEIPTS		
Charges for services	\$ 947,767	\$ 583,571
TOTAL OPERATING RECEIPTS	<u>947,767</u>	<u>583,571</u>
OPERATING DISBURSEMENTS		
Personal services	311,057	211,901
Materials and services	238,525	257,221
Capital outlay	<u>684,067</u>	<u>29,146</u>
TOTAL OPERATING DISBURSEMENTS	<u>1,233,649</u>	<u>498,268</u>
OPERATING INCOME (LOSS)	<u>(285,882)</u>	<u>85,303</u>
NONOPERATING RECEIPTS (DISBURSEMENTS)		
Interest earned on investments	4,279	4,279
Miscellaneous	1,093	3,000
Debt service	<u>(163,816)</u>	<u>(123,469)</u>
TOTAL NONOPERATING RECEIPTS (DISBURSEMENTS)	<u>(158,444)</u>	<u>(116,190)</u>
Income (loss) before capital contributions and transfers	(444,326)	(30,887)
Transfers in	803,698	144,089
Capital contributions	381,994	117,464
Loan proceeds	-	-
Transfers out	<u>(633,699)</u>	<u>(328,823)</u>
Change in net position	107,667	(98,157)
Net position at beginning of year, restated	<u>39,774</u>	<u>130,056</u>
Net position at end of year	<u>\$ 147,441</u>	<u>\$ 31,899</u>

See accompanying notes

Capital Improvements	Debt Service	Total Enterprise Funds
\$ -	\$ -	\$ 1,531,338
<u>-</u>	<u>-</u>	<u>1,531,338</u>
-	-	522,958
-	-	495,746
<u>-</u>	<u>-</u>	<u>713,213</u>
<u>-</u>	<u>-</u>	<u>1,731,917</u>
<u>-</u>	<u>-</u>	<u>(200,579)</u>
4,600	-	13,158
-	-	4,093
<u>-</u>	<u>-</u>	<u>(287,285)</u>
<u>4,600</u>	<u>-</u>	<u>(270,034)</u>
4,600	-	(470,613)
493,264	318,347	1,759,398
-	-	499,458
257,445	-	257,445
<u>(814,800)</u>	<u>(318,347)</u>	<u>(2,095,669)</u>
(59,491)	-	(49,981)
<u>408,265</u>	<u>158,645</u>	<u>736,740</u>
<u>\$ 348,774</u>	<u>\$ 158,645</u>	<u>\$ 686,759</u>

CITY OF CARLTON

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 MODIFIED CASH BASIS
 For the Year Ended June 30, 2017**

	Business-type Activities	
	Water	Sewer
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 949,942	\$ 583,571
Payments to suppliers	(237,919)	(257,221)
Payments to employees	(311,057)	(211,901)
Other receipts	1,093	3,000
Net cash provided by operating activities	402,059	117,449
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Transfer in	-	-
Capital contributions	-	-
Purchases of capital assets	(44,791)	(8,526)
Transfers out	(251,705)	(211,359)
Proceeds from debt	-	-
Principal paid on debt	-	-
Interest paid on debt	-	-
Net cash (used in) capital and related financing activities	(296,496)	(219,885)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned on investments	4,279	4,279
Net cash provided by investing activities	4,279	4,279
Net increase (decrease) in cash and cash equivalents	109,842	(98,157)
Cash and cash equivalents at beginning of year	83,946	130,056
Cash and cash equivalents at the end of year	\$ 193,788	\$ 31,899

See accompanying notes

Capital Improvements	Debt Service	Total Enterprise Funds
\$ -	\$ -	\$ 1,533,513
-	-	(495,140)
-	-	(522,958)
<u>60,328</u>	<u>-</u>	<u>64,421</u>
<u>60,328</u>	<u>-</u>	<u>579,836</u>
225,000	318,347	543,347
207,936	-	207,936
(814,800)	-	(868,117)
-	-	(463,064)
257,445	-	257,445
-	(188,691)	(188,691)
<u>-</u>	<u>(129,656)</u>	<u>(129,656)</u>
<u>(124,419)</u>	<u>-</u>	<u>(640,800)</u>
<u>4,600</u>	<u>-</u>	<u>13,158</u>
<u>4,600</u>	<u>-</u>	<u>13,158</u>
(59,491)	-	(47,806)
<u>408,265</u>	<u>158,645</u>	<u>780,912</u>
<u>\$ 348,774</u>	<u>\$ 158,645</u>	<u>\$ 733,106</u>

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 MODIFIED CASH BASIS (Continued)**

	<u>Business-type Activities</u>	
	<u>Water</u>	<u>Sewer</u>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ (285,882)	\$ 85,303
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Other receipts	1,093	3,000
Change in customer deposits payable	2,175	-
Capital outlay	684,067	29,146
Non-cash transfers related to materials and services	<u>606</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 402,059</u>	<u>\$ 117,449</u>

Capital Improvements	Debt Service	Total Enterprise Funds
\$ -	\$ -	\$ (200,579)
60,328	-	64,421
-	-	2,175
-	-	713,213
-	-	606
<u>\$ 60,328</u>	<u>\$ -</u>	<u>\$ 579,836</u>

CITY OF CARLTON

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

1. Summary of significant accounting policies

A. Organization (reporting entity)

The City was incorporated in 1899, and its current charter was adopted in 2006.

Control of the City is vested in its Council and Mayor. The Council is composed of six members elected at-large to serve four-year staggered terms. The Mayor is elected at each biennial general election to serve a term of two years. The day-to-day City affairs are the responsibility of the City Manager, who is hired with the approval of the Council.

The accompanying financial statements present all activities, funds, and component units for which the City is considered to be financially accountable. The criteria used in making this determination includes appointment of a voting majority, imposition of will, financial benefit or burden on the primary government, and fiscal dependency on the primary government.

The City Council serves as the governing board of the Carlton Urban Renewal Agency. Therefore, the accounts of the Agency are included in the financial statements of the City.

Complete financial statements for the Carlton Urban Renewal Agency may be obtained from the City Recorder.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental receipts, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct disbursements of a given function or segments are offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Amounts reported as program receipts include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Taxes and other items not properly included among program receipts are reported instead as general receipts.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1. Summary of significant accounting policies (continued)

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes receipts, disbursements, assets, and liabilities resulting from cash transactions, adjusted for liabilities that arise from cash transactions.

Only cash (and cash equivalents) and items that involve the receipt or disbursement of cash (or cash equivalents) during the period are recognized, except for the following modifications:

- i. Interfund receivables and payables that arise from transactions and events involving cash or cash equivalents are recognized;
- ii. Assets that normally convert to cash or cash equivalents (e.g., certificates of deposit, marketable investments, and receivables resulting from loans) that arise from transactions and events involving cash or cash equivalents are recognized; and
- iii. Liabilities for cash (or cash equivalents) held on behalf of others, held in escrow, or received in advance of being earned or meeting eligibility requirements are recognized.

As a result of the use of this modified cash basis of accounting, certain transactions are not recorded in the financial statements. For example, billed or provided services that have not been collected in cash are not accrued as receivables. Additionally, capital assets such as property, equipment, and infrastructure are not reported and long-term liabilities such as debt and compensated absences are also not reported.

The fund financial statements are presented on the modified cash basis of accounting.

The City records activity between funds for various purposes involving cash or cash equivalents. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated.

Further, certain activity occurs during the year involving transfers of resources between funds involving cash or cash equivalents. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between funds included in governmental activities are eliminated.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1. Summary of significant accounting policies (continued)

The City reports the following major governmental funds:

General – accounts for all financial resources of the City, except those required to be accounted for in another fund. Principal sources of receipt are property taxes, franchise fees, and state shared revenue. Disbursements are primarily for central government operations, community development (planning), community services (parks and pool) and public safety (police).

Street – accounts for the maintenance of the City’s roads. The principal sources of receipt are state shared revenue and interest earned on investments.

System Development Charges – accounts for financial resources from system development charges that can only be used to expand or improve the system for which the charges were made.

GO-2015 Pool Project Bond – accounts for financial resources from bonds used for the acquisition and improvement of capital assets.

The City reports the following major proprietary funds:

Water – accounts for the maintenance and operation of the City’s water intake, purification and delivery systems. The principal source of receipt is user fees.

Sewer – accounts for the maintenance and operation of the City’s wastewater treatment plant and collection system. The principal source of receipt is user fees.

Capital Improvements – accounts for the acquisition or improvements of capital assets. The principal source of funds are transfers.

Debt Service – accounts for the payment of debt. The principal source of funds are transfers.

The City also includes the following fund types as nonmajor governmental fund types:

Special revenue – accounts for receipt derived from specific taxes or other receipt sources, which are legally restricted to finance particular functions or activities. When a special revenue fund is not an operating fund, transfers are made from the special revenue fund to the operating funds authorized to make disbursements.

Capital projects - account for financial resources which are to be disbursed for the acquisition or improvement of capital assets.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1. Summary of significant accounting policies (continued)

D. Budgets policies and budgetary control

Generally, Oregon Local Budget Law requires annual budgets be adopted for all funds except agency funds. The modified cash basis of accounting is used for all budgets. All annual appropriations lapse at the end of the fiscal year.

The City begins its budgeting process by appointing a budget officer in the winter of each year. Budget recommendations are developed by management through early spring, with the budget committee meeting and approving the budget document in late spring. Public notices of the budget hearing are generally published in May or June and the hearing is held in June. The City Council adopts the budget, makes appropriations, and declares the tax levy no later than June 30. Disbursement appropriations may not be legally over-expended, except in the case of grant receipts and bond sale proceeds which could not be reasonably estimated at the time the budget was adopted.

The resolution authorizing appropriations for each fund sets the level at which disbursements cannot legally exceed appropriations. The City established the levels of budgetary control at the personal services, materials and services, capital outlay, operating contingencies, debt service, and all other requirement levels for all funds, except the General Fund budgetary control is established at the department level.

Budget amounts shown in the basic financial statements have been revised since the original budget amounts were adopted. The City Council must authorize all appropriation transfers and supplementary budgetary appropriations.

E. Property taxes

Under state law, county governments are responsible for extending authorized property tax levies, computing tax rates, billing and collecting all property taxes, and making periodic remittances of collections to entities levying taxes. Real and personal property taxes are levied upon all taxable property and become a lien against the property as of July 1 of each year. Property taxes are payable in three installments following the lien date on November 15, February 15 and May 15 each year.

As the basic financial statements are presented on the modified cash basis, uncollected property taxes are not reported. Property taxes are recorded as receipts when received.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1. Summary of significant accounting policies (continued)

F. Equity classification

Government-wide and proprietary fund reporting

In the government-wide and proprietary fund financial statements equity is classified as net position and displayed in the following components:

Restricted – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted – All other net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

In the government-wide and proprietary fund financial statements, when the City has restricted and unrestricted resources available, it is the City’s policy to expend restricted resources first and then unrestricted resources as needed in determining the amounts to report as restricted – net position and unrestricted – net position.

Governmental fund type fund balance reporting

Fund balance amounts are reported within one of the fund balance categories listed below:

Non-spendable – Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – Amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The City Council, has granted authority to the City Manager to assign fund balance amounts.

Unassigned – the residual classification for the government’s general fund and includes all spendable amounts not contained in the other classifications. Additionally, other funds may report negative unassigned fund balance in certain circumstances.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1. Summary of significant accounting policies (continued)

In the governmental fund financial statements, when the City has restricted and unrestricted (Committed, Assigned or Unassigned) resources available, it is the City's policy to expend restricted resources first. Unrestricted resources are then expended in the order of committed, assigned, and unassigned as needed, unless otherwise provided for in actions to commit or assign resources, in determining the amounts to be reported in each of the fund balance categories.

G. Compensated absences

Vacation leave

The City has a policy which permits employees to earn vacation leave at a rate determined by length of employment. Any amounts not used or forfeited will be paid upon the employee's termination of employment.

Sick leave

The City has a policy which permits full-time employees to earn sick leave at the rate of 10 days per year over their working careers. The City does not compensate employees for unused sick leave upon termination of employment, unless otherwise specified by terms of a contract.

H. Pensions

Employees of the City participate in the Oregon Public Employee Retirement System (OPERS). The City is required to contribute amounts based on actuarial valuations. Additionally, the City contribution on behalf of employees 6 percent to the Individual Account Program under OPERS.

2. Cash and investments

The City's cash and investments at June 30, 2017 are as follows:

State of Oregon Local Government Investment Pool	\$ 2,895,721
Cash on hand	244
Deposits with financial institutions	<u>57,397</u>
Total cash and investments	<u>\$ 2,953,362</u>

The City maintains a pool of cash and investments that are available for use by all funds. Each fund's portion of this pool is displayed on the financial statements as cash and investments. Interest earned on pooled cash and investments is allocated to participating funds based upon their combined cash and investment balances.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

2. Cash and investments (continued)

A. Deposits with financial institutions

Custodial Credit Risk – Deposits: This is the risk that in the event of a bank failure, the City's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the District's deposits with financial institutions up to \$250,000 each for the aggregate of all non-interest bearing accounts and the aggregate of all interest bearing accounts at each institution. Deposits in excess of FDIC coverage with institutions participating in the Oregon Public Funds Collateralization Program are collateralized with securities held by the Federal Home Loan Bank of Seattle in the name of the institution. As of June 30, 2017, none of the City's bank balances were exposed to custodial credit risk.

B. Investments

Investments are stated at fair value. Fair value is determined at the quoted market price, if available; otherwise the fair value is estimated based on the amount at which the investment could be exchanged in a current transaction between willing parties, other than a forced liquidation sale.

Investments in the State of Oregon Local Government Investment Pool (LGIP) are stated at fair value. The Oregon State Treasury administers the LGIP. The LGIP is an unrated, open-ended, no-load, diversified portfolio offered to any agency, political subdivision or public corporation of the state who by law is made the custodian of, or has control of, any fund. The LGIP is commingled with the State's short-term funds. To provide regulatory oversight, the Oregon Legislature established the Oregon Short-Term Fund Board and LGIP investments are approved by the Oregon Investment Council. The fair value of the City's position in the LGIP is the same as the value of the pool shares.

Credit risk: Oregon statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, bankers' acceptances, repurchase agreements, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, and the state treasurer's investment pool.

Concentration of Credit Risk: The City does not have a formal policy that places a limit on the amount that may be invested in any one insurer. 100 percent of the City's investments are in the State of Oregon State and Local Investment Pool.

Interest Rate Risk: The City does not have a formal policy that limits investment maturities as a means of managing its exposure to fair-value losses arising from increases in interest rates.

Custodial Credit Risk – Investments: This is the risk that, in the event of the failure of a counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City does not have a policy which limits the amount of investments that can be held by counterparties.

C. Cash restriction

The Debt Service Fund (a proprietary fund) is required to maintain a cash balance equal to or greater than one year's principal and interest payments for the Revenue Bonds, Series 2007. The amount required to be maintained is \$166,227. At June 30, 2017, the Debt Service Fund had a cash balance of \$158,645.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

3. Long-term obligations

A. Changes in long-term obligations for the year ended June 30, 2017 were as follows:

	Outstanding July 1, 2016	Additions	Reductions	Outstanding June 30, 2017	Balances Due Within One Year
<u>Governmental Activities</u>					
Long-term debt					
GO Bonds, series 2015 (swimming pool)	\$ 945,000	\$ -	\$ 20,000	\$ 925,000	\$ 25,000
Promissory note, Citizen's Bank	216,718	-	18,271	198,447	19,636
Capital lease, Ford Credit Company LLC	<u>41,443</u>	<u>-</u>	<u>22,289</u>	<u>19,154</u>	<u>19,154</u>
				-	
Total long-term debt	<u>\$ 1,203,161</u>	<u>\$ -</u>	<u>\$ 60,560</u>	<u>\$ 1,142,601</u>	<u>\$ 63,790</u>
<u>Business-type Activities</u>					
Long-term debt					
Bonded debt					
Water revenue bonds, series 2007, original	\$ 655,000	\$ -	\$ 45,000	\$ 610,000	\$ 50,000
Loans					
Safe drinking water revolving loan	1,431,106	257,445	-	1,688,551	-
Safe drinking water revolving loan	1,277,349	-	73,976	1,203,373	74,716
Water/wastewater financing program loan	<u>1,443,377</u>	<u>-</u>	<u>51,444</u>	<u>1,391,933</u>	<u>54,011</u>
Total long-term debt	<u>\$ 4,806,832</u>	<u>\$ 257,445</u>	<u>\$ 170,420</u>	<u>\$ 4,893,857</u>	<u>\$ 178,727</u>

B. Government activities long-term debt obligations

GO Bonds, Series 2015 (swimming pool)-The City borrowed \$975,000 to finance the swimming pool project. Annual payments of \$56,037 include interest at 3.77 percent.

Promissory note, Citizen's Bank-The City borrowed \$230,000 to finance City projects. Annual payments of \$24,175 include interest at 5.95 percent.

Capital lease, Ford Credit Company LLC-The City entered into a capital lease in the amount of \$63,732. Annual payments of \$24,361 include interest at 5 percent.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

3. Long-term obligations (continued)

C. Business-type activities long-term debt obligations

Water Receipt Bonds, series 2007 – The City issued bonds of \$1,000,000 to finance the remaining costs associated with the improvements to the water system. Interest on the outstanding bonds will vary from 4.75 to 4.9 percent.

Safe drinking water revolving loan (IFA S15008) – The City is estimated to borrow \$2,555,500 to finance water system improvements. At June 30, 2016 the City has drawn down \$1,431, 106.

Safe drinking water revolving loan (OEDD S99099) – The City borrowed \$2,238,625 to finance its water system improvements. Annual payments of \$86,742 include interest at 1 percent.

Water/wastewater financing program loan (OEDD Y09002) – The City borrowed \$1,540,000 to finance the City’s waste water improvements project. Annual payments of \$123,468 include interest at 4.99 percent.

D. Future maturities of government activities long-term debt obligations

Fiscal Year	GO Bonds, Series 2015		Promissory note, Citizen's Bank		Capital lease Ford Credit Company, LLC		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 25,000	\$ 34,873	\$ 19,636	\$ 11,427	\$ 19,154	\$ 1,061	\$ 63,790	\$ 47,361
2019	25,000	33,930	20,854	10,209	-	-	45,854	44,139
2020	30,000	32,987	22,123	8,940	-	-	52,123	41,927
2021	30,000	31,857	23,519	7,544	-	-	53,519	39,401
2022	35,000	30,725	24,978	4,889	-	-	59,978	35,614
2023-27	215,000	132,139	87,337	6,438	-	-	302,337	138,577
2028-32	315,000	84,071	-	-	-	-	315,000	84,071
2033-35	250,000	19,415	-	-	-	-	250,000	19,415
	<u>\$ 925,000</u>	<u>\$ 399,997</u>	<u>\$ 198,447</u>	<u>\$ 49,447</u>	<u>\$ 19,154</u>	<u>\$ 1,061</u>	<u>\$ 1,142,601</u>	<u>\$ 450,505</u>

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

3. Long-term obligations (continued)

E. Future maturities of business-type activities long-term debt obligations

Fiscal Year	Water Revenue Bonds Series 2007		Safe Drinking Water Revolving Loan		Water/Wastewater Financing Loan		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2018	\$ 50,000	\$ 29,485	\$ 74,716	\$ 12,026	\$ 54,011	\$ 69,457	\$ 178,727
2019	50,000	27,110	75,463	11,279	56,707	66,762	182,169	105,151
2020	55,000	24,735	76,217	10,525	59,536	63,933	190,754	99,193
2021	55,000	22,123	76,980	9,762	62,507	60,962	194,487	92,847
2022	60,000	19,510	77,749	8,993	65,626	57,843	203,376	86,346
2023-27	340,000	51,695	400,565	33,145	380,645	236,699	1,121,210	321,539
2028-32	-	-	421,683	12,711	485,579	131,765	907,262	144,476
2033-34	-	-	-	-	227,321	17,091	227,321	17,091
	<u>\$ 610,000</u>	<u>\$ 174,658</u>	<u>\$ 1,203,373</u>	<u>\$ 98,441</u>	<u>\$ 1,391,933</u>	<u>\$ 704,512</u>	<u>\$ 3,205,305</u>	<u>\$ 977,611</u>

The future maturities schedule for the safe drinking water revolving loan IFA S15008 will be established following the final draw down.

F. Covenants and loan terms

Covenants of the Water Revenue Bonds, Series 2007 require the City to maintain a set ratio of net receipts to annual debt service payments. As of June 30, 2017, the City was not in compliance with these covenants.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

4. Interfund transactions

A. Interfund transfers during the year ended June 30, 2017 were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General	\$ 29,295	\$ 81,063
Street	-	28,515
Water	-	251,705
Sewer	-	211,359
Capital Improvement	225,000	-
Debt Service	<u>318,347</u>	<u>-</u>
	<u>\$ 572,642</u>	<u>\$ 572,642</u>

As part of budget preparation and adoption, the City anticipates making interfund transfers to move resources between funds to provide resources for specific expenditures that are not supported by other receipts.

B. Non-cash transfers between governmental activities and business-type activities / proprietary funds during the year ended June 30, 2017 were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental activities	\$ 439,860	\$ 23,306
Business-type activities:		
Water	803,698	381,994
Sewer	144,089	117,464
Capital Improvement	268,264	814,800
Debt Service	<u>-</u>	<u>318,347</u>
	<u>\$ 1,655,911</u>	<u>\$ 1,655,911</u>

These transfers reflect principal and interest debt payments made by the Debt Service Fund for the debt obligation of the Water Fund and, acquisition of capital assets by the Capital Improvements Fund and System Development Charges Fund on behalf of the General, Water, and Sewer Funds.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

5. Tax abatement

Yamhill County has established a historic property zone under ORS 358.475-.545 that abates property taxes on historic properties within zone. As a result, the property taxes that the City will receive for the 2016-17 levy year has been reduced by \$513.

6. Contingencies - accumulated sick leave

Portions of sick leave accumulated at any point in time can be expected to be redeemed before termination of employment; however, such redemptions cannot be reasonably estimated. As of June 30, 2017, City employees had accumulated 291 days of sick leave.

7. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance for such risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years

8. Construction commitments

The City has construction contracts with remaining commitments, as follows:

<u>Project</u>	<u>Commitment</u>
Meadow Lake water supply transmission line	\$ 1,131,949

9. Disbursements in excess of appropriations

Oregon law prohibits expenditures or disbursements of a fund in excess of appropriations. Expenditures in excess of appropriations were made in the following categories:

<u>Fund/Category</u>	<u>Appropriation</u>	<u>Actual</u>	<u>Variance</u>
Street Material and services	\$ 76,460	\$ 197,476	\$ (121,016)

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

10. Defined benefit pension plan

A. Plan description

Employees of the District are provided with pensions through the Oregon Public Employee Retirement Systems (OPERS).

The OPERS consists of a single cost-sharing multiple employer defined benefit pension plan.

OPERS produces an independently audited comprehensive annual financial report which includes detailed information about the pension plan's fiduciary net position. The report can be found at: www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx

B. Description of benefit terms

All benefits of the OPERS are established by the legislature pursuant to ORS Chapters 238 and 238A.

Tier One/Tier Two retirement benefit (Chapter 238)

Tier One/Tier Two Retirement Benefit plan is closed to new members hired on or after August 29, 2003.

Pension benefits

The OPERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer. General service employees may retire after reaching age 55. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Tier Two members are eligible for full benefits at age 60.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

10. Defined benefit pension plan (continued)

Death benefits

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met:

- the member was employed by an OPERS employer at the time of death,
- the member died within 120 days after termination of OPERS-covered employment,
- the member died as a result of injury sustained while employed in an OPERS-covered job, or
- the member was on an official leave of absence from an OPERS-covered job at the time of death.

Disability benefits

A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including OPERS judge members) for disability benefits regardless of the length of OPERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 when determining the monthly benefit.

Benefit changes after retirement

Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments. Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes.

Oregon Public Service Retirement Plan (Chapter 238A) (OPSRP)

Pension benefits

The OPSRP pension program provides benefits to members hired on or after August 29, 2003.

This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

General service: 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

A member of the OPSRP pension program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

10. Defined benefit pension plan (continued)

Death benefits

Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.

Disability benefits

A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

Benefit changes after retirement

Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes.

C. Contributions

OPERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due.

Employer contribution rates during the period were based on the December 31, 2013 actuarial valuation.

Tier 1/tier 2 employer contribution rates are 6.04 percent, the OPSRP employer contribution rates are .45 percent for general service employees and the OPSRP employer contributions rates are 4.41 percent for police and fire employees. Employer contributions for the year ended June 30, 2017 were \$12,464.

D. Actuarial valuations – Tier One/Tier Two

The December 31, 2013 actuarial valuation used the following actuarial methods and valuation procedures in determining the Tier One/Tier Two contribution rates.

Actuarial cost method

The employer contribution rates effective July 1, 2015, through June 30, 2017, were set using the entry age normal actuarial cost method. Under this actuarial cost method, each active member's entry age present value of projected benefits is allocated over the member's service from the member's date of entry until their assumed date of exit, taking into consideration expected future compensation increases.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

10. Defined benefit pension plan (continued)

Unfunded actuarial accrued liability amortization

The Tier 1/Tier 2 UAL amortization period is reset to 20 years as of December 31, 2013. Gains and losses between subsequent odd-year valuations will be amortized as a level percentage of combined valuation payroll (Tier 1/ Tier 2 plus OPSRP payroll) over a closed 20 year period from the valuation in which they are first recognized.

Retiree healthcare unfunded actuarial accrued liability amortization

The UAL for Retiree Health Care as of December 31, 2007 is amortized as a level percentage of combined valuation payroll (Tier 1/ Tier 2 plus OPSRP payroll) over a closed 10 year period. Gains and losses between subsequent odd-year valuations are amortized as a level percentage of combined valuation payroll over a closed 10 year period from the valuation in which they are first recognized.

Asset valuation method

The actuarial value of assets equals the market value of assets, excluding the Contingency and Capital Preservation Reserves, and the Rate Guarantee Reserve when it is in positive surplus status. Market values are reported to the actuary by PERS. Real estate and private equity investments are reported on a three-month lag basis.

Contribution rate stabilization method

Contribution rates for a rate pool (e.g. Tier 1/Tier 2 SLGRP, Tier 1/Tier 2 School Districts, OPSRP) are confined to a collared range based on the prior contribution rate (prior to application of side accounts, pre-SLGRP liabilities, and 6 percent Independent Employer minimum). The new contribution rate will generally not increase or decrease from the prior contribution rate by more than the greater of 3 percentage points or 20 percent of the prior contribution rate. If the funded percentage excluding side accounts drops below 60% or increases above 140%, the size of the collar doubles. If the funded percentage excluding side accounts is between 60% and 70% or between 130% and 140%, the size of the rate collar is increased on a graded scale.

Allocation of liability for service segments

For active Tier 1/Tier 2 members who have worked for multiple PERS employers over their career, the calculated actuarial accrued liability is allocated among the employers based on a weighted average of the Money Match methodology, which uses account balance, and the Full Formula methodology, which uses service. The allocation is 30% based on account balance with each employer and 70% based on service with each employer. The entire normal cost is allocated to the current employer.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

10. Defined benefit pension plan (continued)

Allocation of benefits-in-force reserve

The reserve is allocated to each rate pool in proportion to the retiree liability attributable to the rate pool.

Economic assumptions

Investment return	7.75% compounded annually
Pre-2014 interest crediting	8.00% compounded annually on regular account balances 8.25% compounded annually on variable account balances
Post-2013 interest crediting	7.75% compounded annually
Inflation	2.75% compounded annually
Payroll growth	3.75% compounded annually
Healthcare cost trends	Ranges from 6.1% in 2014 to 4.7% in 2083

Demographic assumptions

Mortality tables

Healthy retirees	RP 2000, Generational (Scale AA) Combined Active/Healthy Annuitant, Sex Distinct
Disabled retirees	RP 2000, Static, Combined Disabled, No Collar, Sex Distinct Male 65% and Female 90% of disabled table
Non-annuitants	Ranges from 55% to 70% of healthy retired mortality tables depending upon sex and employment type

Retirement assumptions

Probability tables based on age of member, years of service and employment type with all police and fire retired by age 65 and all others retired by age 70, election to receive a lump sum option at retirement, disability assumptions, termination assumptions and Oregon post-retirement residency assumptions.

Salary increase assumptions

Salary increase assumptions, in addition to general payroll growth, include merit increase, unused sick leave and vacation pay adjustments.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

10. Defined benefit pension plan (continued)

E. Actuarial valuations – OPSRP

The December 31, 2013 actuarial valuation for OPSRP generally used the same actuarial methods and valuation procedures as Tier One/Tier Two contribution rates except as follows:

OPSRP unfunded actuarial accrued liability amortization

The UAL as of December 31, 2007 is amortized as a level percentage of combined valuation payroll (Tier 1/ Tier 2 plus OPSRP payroll) over a closed period 16 year period. Gains and losses between subsequent odd-year valuations are amortized as a level percentage of combined valuation payroll over 16 years from the valuation in which they are first recognized.

Economic assumptions

An additional amount for administrative expenses is added to the normal cost.

Retirement assumptions

Probability tables are different but still based on age of member, years of service and employment type with all police and fire retired by age 65 and all others retired by age 70, election to receive a lump sum option at retirement, disability assumptions, termination assumptions and Oregon post-retirement residency assumptions.

11. Defined contribution plan

Individual Account Program (IAP)

Participants in OPERS defined benefit pension plan also participate in the defined contribution plan.

Pension Benefits

An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member, the member becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies.

Upon retirement, a member of the IAP may receive the amounts in his or her employee account, rollover account, and vested employer account as a lump-sum payment or in equal installments over a 5-, 10-, 15-, 20-year period or an anticipated life span option. Each distribution option has a \$200 minimum distribution limit.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

11. Defined contribution plan (continued)

Death Benefits

Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account balance, rollover account balance, and vested employer optional contribution account balance. If a retired member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump-sum payment.

Contributions

The City makes the employee contributions of 6 percent of covered payroll for all permanent employees to the plan. Contributions for the year ended June 30, 2017 were \$32,752.

12. Change in basis of accounting

The City changed its basis of accounting for the annual financial report to the modified cash basis of accounting. The City believes the annual financial report should reflect the basis of accounting used to maintain its records, monthly reporting, and budget. Accordingly, the beginning net position has been restated follows:

<u>Activity/Fund</u>	<u>Previously Reported</u>	<u>Restated</u>	<u>Change</u>
Governmental activities	<u>\$ 5,342,684</u>	<u>\$ 1,993,930</u>	<u>\$ (3,348,754)</u>
Business-type activities / proprietary funds			
Water	\$ 2,857,574	\$ 39,774	\$ (2,817,800)
Sewer	3,840,577	130,056	(3,710,521)
Capital Improvements	293,846	408,265	114,419
Debt Service	<u>158,645</u>	<u>158,645</u>	<u>-</u>
Total business-type activities	<u>\$ 7,150,642</u>	<u>\$ 736,740</u>	<u>\$ (6,413,902)</u>

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**12. Change in basis of accounting (continued)**

The beginning fund balance of governmental funds have been restated as follows:

<u>Fund</u>	<u>Previously Reported</u>	<u>Restated</u>	<u>Change</u>
Governmental funds			
General	<u>\$ 335,163</u>	<u>\$ 340,474</u>	<u>\$ 5,311</u>
Street	<u>107,996</u>	<u>104,699</u>	<u>(3,297)</u>
System Development Charges	<u>1,145,918</u>	<u>1,146,870</u>	<u>952</u>
GO-2015 Pool Project Bond	<u>229,040</u>	<u>288,584</u>	<u>59,544</u>
Nonmajor			
Urban Renewal	40,499	40,321	(178)
Tourism	15,825	16,233	408
Vehicle/Equipment Replacement	<u>56,749</u>	<u>56,749</u>	<u>-</u>
Total nonmajor	<u>113,073</u>	<u>113,303</u>	<u>230</u>
Total governmental funds	<u>\$ 1,931,190</u>	<u>\$ 1,993,930</u>	<u>\$ 62,740</u>

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**COMBINING FINANCIAL STATEMENTS AND
INDIVIDUAL FUND SCHEDULES**

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CITY OF CARLTON

SYSTEM DEVELOPMENT CHARGES - CAPITAL PROJECTS FUND (MAJOR FUND)

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
MODIFIED CASH BASIS**

For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
RECEIPTS			
System development charges	\$ 152,580	\$ 347,932	\$ 195,352
Interest	<u>3,250</u>	<u>4,570</u>	<u>1,320</u>
TOTAL RECEIPTS	<u>155,830</u>	<u>352,502</u>	<u>196,672</u>
DISBURSEMENTS			
Water system development charges	330,319	606	329,713
Sewer system development charges	572,858	-	572,858
Transportation system development charges	149,364	-	149,364
Parks system development charges	13,331	348	12,983
Stormwater system development charges	<u>157,556</u>	<u>7,000</u>	<u>150,556</u>
TOTAL DISBURSEMENTS	<u>1,223,428</u>	<u>7,954</u>	<u>1,215,474</u>
Net change in fund balance	(1,067,598)	344,548	1,412,146
Fund balance at beginning of year, restated	<u>1,067,598</u>	<u>1,146,870</u>	<u>79,272</u>
Fund balance at end of year	<u>\$ -</u>	<u>\$ 1,491,418</u>	<u>\$ 1,491,418</u>

CITY OF CARLTON

GO-2015 POOL PROJECT BOND - CAPITAL PROJECTS FUND (MAJOR FUND)

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
MODIFIED CASH BASIS**

For the Year Ended June 30, 2017

	Budget	Actual	Variance
RECEIPTS			
Property taxes	\$ 62,500	\$ 53,484	\$ (9,016)
Interest	2,500	965	(1,535)
Miscellaneous	-	672	672
TOTAL RECEIPTS	65,000	55,121	(9,879)
DISBURSEMENTS			
Capital outlay	711,202	283,799	427,403
Debt service	55,626	55,626	-
Contingency	10,837	-	10,837
TOTAL DISBURSEMENTS	777,665	339,425	438,240
Excess (deficiency) of receipts over disbursements	(712,665)	(284,304)	428,361
OTHER FINANCING SOURCES (USES)			
Transfers in	57,500	-	(57,500)
TOTAL OTHER FINANCING SOURCES (USES)	57,500	-	(57,500)
Net change in fund balance	(655,165)	(284,304)	370,861
Fund balance at beginning of year, restated	655,165	288,584	(366,581)
Fund balance at end of year	\$ -	\$ 4,280	\$ 4,280

CITY OF CARLTON

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
MODIFIED CASH BASIS
June 30, 2017**

	Special Revenue		Capital Projects	
	Urban Renewal	Tourism	Vehicle/ Equipment Replacement	Totals
<u>ASSETS</u>				
Cash and cash equivalents	\$ 90,924	\$ 17,893	\$ 56,749	\$ 165,566
<u>FUND BALANCE</u>				
Restricted	90,924	-	-	90,924
Committed	-	17,893	56,749	74,642
TOTAL FUND BALANCES	\$ 90,924	\$ 17,893	\$ 56,749	\$ 165,566

CITY OF CARLTON

**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
MODIFIED CASH BASIS
For the Year Ended June 30, 2017**

	<u>Special Revenue</u>		<u>Capital Project</u>	<u>Totals</u>
	<u>Urban Renewal</u>	<u>Tourism</u>	<u>Vehicle/ Equipment Replacement</u>	
RECEIPTS				
Property taxes	\$ 104,351	\$ -	\$ -	\$ 104,351
Miscellaneous taxes	-	19,637	-	19,637
Interest	1,760	307	-	2,067
TOTAL RECEIPTS	<u>106,111</u>	<u>19,944</u>	<u>-</u>	<u>126,055</u>
DISBURSEMENTS				
Current				
General government	4,554	18,284	-	22,838
Capital outlay	50,954	-	-	50,954
TOTAL DISBURSEMENTS	<u>55,508</u>	<u>18,284</u>	<u>-</u>	<u>73,792</u>
Net change in fund balance	50,603	1,660	-	52,263
Fund balance at beginning of year, restated	<u>40,321</u>	<u>16,233</u>	<u>56,749</u>	<u>113,303</u>
Fund balance at end of year	<u>\$ 90,924</u>	<u>\$ 17,893</u>	<u>\$ 56,749</u>	<u>\$ 165,566</u>

CITY OF CARLTON

**URBAN RENEWAL - SPECIAL REVENUE FUND
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
MODIFIED CASH BASIS
For the Year Ended June 30, 2017**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
RECEIPTS			
Property taxes	\$ 105,856	\$ 104,351	\$ (1,505)
Interest	<u>1,200</u>	<u>1,760</u>	<u>560</u>
TOTAL RECEIPTS	<u>107,056</u>	<u>106,111</u>	<u>(945)</u>
DISBURSEMENTS			
Materials and services	6,000	4,554	1,446
Capital outlay	<u>133,635</u>	<u>50,954</u>	<u>82,681</u>
TOTAL DISBURSEMENTS	<u>139,635</u>	<u>55,508</u>	<u>84,127</u>
Net change in fund balance	(32,579)	50,603	83,182
Fund balance at beginning of year, restated	<u>32,579</u>	<u>40,321</u>	<u>7,742</u>
Fund balance at end of year	<u>\$ -</u>	<u>\$ 90,924</u>	<u>\$ 90,924</u>

CITY OF CARLTON

**TOURISM-SPECIAL REVENUE FUND
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
MODIFIED CASH BASIS
For the Year Ended June 30, 2017**

	Budget	Actual	Variance
RECEIPTS			
Miscellaneous taxes	\$ 18,900	\$ 19,637	\$ 737
Interest	175	307	132
TOTAL RECEIPTS	19,075	19,944	869
DISBURSEMENTS			
Materials and services	28,895	18,284	10,611
TOTAL DISBURSEMENTS	28,895	18,284	10,611
Net change in fund balance	(9,820)	1,660	11,480
Fund balance at beginning of year, restated	9,820	16,233	6,413
Fund balance at end of year	\$ -	\$ 17,893	\$ 17,893

CITY OF CARLTON

**VEHICLE/EQUIPMENT REPLACEMENT - CAPITAL PROJECTS FUND
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
MODIFIED CASH BASIS**

For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
DISBURSEMENTS			
Contingency	\$ 56,749	\$ -	\$ 56,749
Fund balance at beginning of year, restated	<u>56,749</u>	<u>56,749</u>	<u>-</u>
Fund balance at end of year	<u>\$ -</u>	<u>\$ 56,749</u>	<u>\$ 56,749</u>

CITY OF CARLTON

**WATER - ENTERPRISE FUND (MAJOR FUND)
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
MODIFIED CASH BASIS
For the Year Ended June 30, 2017**

	Budget	Actual	Variance
RECEIPTS			
Charges for services	\$ 890,819	\$ 947,767	\$ 56,948
Interest	1,200	4,279	3,079
Miscellaneous	500	1,093	593
TOTAL RECEIPTS	892,519	953,139	60,620
DISBURSEMENTS			
Personal services	329,164	311,057	18,107
Materials and services	259,400	258,784	616
Capital outlay	10,500	23,926	(13,426)
Contingency	138,180	-	138,180
TOTAL DISBURSEMENTS	737,244	593,767	143,477
Excess (deficiency) of receipts over disbursements	155,275	359,372	204,097
OTHER FINANCING SOURCES (USES)			
Transfers out	(251,705)	(251,705)	-
TOTAL OTHER FINANCING SOURCES (USES)	(251,705)	(251,705)	-
Net change in fund balance	(96,430)	107,667	204,097
Fund balance at beginning of year, restated	96,430	39,774	(56,656)
Fund balance at end of year	\$ -	\$ 147,441	\$ 147,441

CITY OF CARLTON

**SEWER - ENTERPRISE FUND (MAJOR FUND)
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
MODIFIED CASH BASIS
For the Year Ended June 30, 2017**

	Budget	Actual	Variance
RECEIPTS			
Charges for services	\$ 561,825	\$ 583,571	\$ 21,746
Interest	1,500	4,279	2,779
Miscellaneous	3,100	3,000	(100)
TOTAL RECEIPTS	566,425	590,850	24,425
DISBURSEMENTS			
Personal services	224,393	211,901	12,492
Materials and services	270,000	257,221	12,779
Capital outlay	10,500	8,526	1,974
Contingency	45,776	-	45,776
TOTAL DISBURSEMENTS	550,669	477,648	73,021
Excess (deficiency) of receipts over disbursements	15,756	113,202	97,446
OTHER FINANCING SOURCES (USES)			
Transfers out	(211,359)	(211,359)	-
TOTAL OTHER FINANCING SOURCES (USES)	(211,359)	(211,359)	-
Net change in fund balance	(195,603)	(98,157)	97,446
Fund balance at beginning of year, restated	195,603	130,056	(65,547)
Fund balance at end of year	\$ -	\$ 31,899	\$ 31,899

CITY OF CARLTON

**CAPITAL IMPROVEMENTS - ENTERPRISE FUND (MAJOR FUND)
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
MODIFIED CASH BASIS**

For the Year Ended June 30, 2017

	Budget	Actual	Variance
RECEIPTS			
Intergovernmental	\$ 75,000	\$ 207,936	\$ 132,936
Interest	2,500	4,600	2,100
Miscellaneous	37,628	60,328	22,700
TOTAL RECEIPTS	115,128	272,864	157,736
DISBURSEMENTS			
Facilities/special projects	150,000	60,615	89,385
Parks projects	61,500	68,184	(6,684)
Transportation projects	52,701	26,105	26,596
Water projects	1,087,628	639,276	448,352
Sewer projects	233,265	20,620	212,645
Contingency	175,082	-	175,082
TOTAL DISBURSEMENTS	1,760,176	814,800	945,376
Excess (deficiency) of receipts over disbursements	(1,645,048)	(541,936)	1,103,112
OTHER FINANCING SOURCES (USES)			
Loan receipts	1,000,000	257,445	(742,555)
Transfers in	225,000	225,000	-
TOTAL OTHER FINANCING SOURCES (USES)	1,225,000	482,445	(742,555)
Net change in fund balance	(420,048)	(59,491)	360,557
Fund balance at beginning of year, restated	420,048	408,265	(11,783)
Fund balance at end of year	\$ -	\$ 348,774	\$ 348,774

CITY OF CARLTON

**DEBT SERVICE - ENTERPRISE FUND (MAJOR FUND)
 SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 MODIFIED CASH BASIS
 For the Year Ended June 30, 2017**

	Budget	Actual	Variance
DISBURSEMENTS			
Debt service	\$ 318,347	\$ 318,347	\$ -
Contingency	158,647	-	158,647
TOTAL DISBURSEMENTS	476,994	318,347	158,647
OTHER FINANCING SOURCES (USES)			
Transfers in	318,347	318,347	-
TOTAL OTHER FINANCING SOURCES (USES)	318,347	318,347	-
Net change in fund balance	(158,647)	-	158,647
Fund balance at beginning of year, restated	158,647	158,645	(2)
Fund balance at end of year	\$ -	\$ 158,645	\$ 158,645

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COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

Honorable Mayor and Members
of the City Council
CITY OF CARLTON
Carlton, Oregon

We have audited in accordance with auditing standards generally accepted in the United States of America the basic financial statements of the CITY OF CARLTON as of and for the year ended June 30, 2017, and have issued our report thereon dated October 26, 2017.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- Deposit of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions and repayment.
- Budgets legally required (ORS Chapter 294).
- Insurance and fidelity bonds in force or required by law.
- Highway revenues used for public highways, roads, and streets.
- Authorized investment of surplus funds (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).

**INDEPENDENT AUDITOR'S REPORT REQUIRED BY
OREGON STATE REGULATIONS (Continued)**

Compliance and Other Matters (continued)

In connection with our testing nothing came to our attention that caused us to believe the City was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations except as follows:

1. The 2016-17 budget was executed in compliance with legal requirements, except disbursements in excess of appropriations (which is prohibited by ORS 294.435) were made in the following categories:

<u>Fund/Category</u>	<u>Appropriation</u>	<u>Actual</u>	<u>Variance</u>
Street			
Materials and services	\$ 76,460	\$ 197,476	\$ (121,016)
Water			
Capital outlay	10,500	23,926	(13,426)
Capital Improvement			
Parks projects	61,500	68,184	(6,684)

OAR 162-10-0230 Internal Control

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control. Deficiencies in internal control have been communicated separately.

Restriction of Use

This report is intended solely for the information and use of the council members and management of CITY OF CARLTON and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

Boldt Carlisle + Smith
 Certified Public Accountants
 Salem, Oregon
 October 26, 2017

By: 

Bradley G. Bingenheimer, Member



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the City Council
City of Carlton

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Carlton as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 26, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2017-1.

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
Compliance and Other Matters (Continued)

As part of obtaining reasonable assurance about whether the City’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Carlton’s Response to Findings

The City’s response to the finding identified in our audit are described in the accompanying schedule of findings and responses. The City’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Boldt Carlisle & Smith

Boldt Carlisle + Smith
Certified Public Accountants
Salem, Oregon
October 26, 2017

CITY OF CARLTON
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2017

Significant Deficiency

2017-001 Journal Entries

- Criteria: Internal controls should provide for adequate segregation of duties in connection with the posting of journal entries.
- Condition: The City's control activities over journal entries do not include segregation between authorization and bookkeeping. The finance director has the ability to post journal entries that have not been authorized. Additionally, a reconciliation of the posted journal entries to the approved journal entries is not a procedure performed at the City. Without this reconciliation the City is unable to ensure only approved journal entries have been posted.
- Cause: Internal controls have not been established that segregate the authorization and bookkeeping functions associated with journal entries. Also, the City has not implemented a program to ensure only authorized journal entries are being posted.
- Effect: The lack of internal controls over journal entries does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis that may result from error or fraud.
- Recommendation: The City should establish policies that provide for adequate segregation of duties between authorization and bookkeeping. Further, the City should implement a reconciliation between approved journal entries and posted journal entries. Policies should include documentation standards such as initialing and dating.
- Response: The City of Carlton does not agree with this finding. All journal entries made by the Finance Director are reviewed and signed off by the City Manager.